



STATE OF MICHIGAN

DEPARTMENT OF MANAGEMENT & BUDGET  
LANSING

JENNIFER M. GRANHOLM  
GOVERNOR

LISA WEBB SHARPE  
DIRECTOR

May 24, 2006

MEMORANDUM

TO: Department Directors

FROM: Rose Wilson, Director  
DMB Fleet Operations

SUBJECT: FY 2006 Fuel Surcharge

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Effective June 1, 2006, it will be necessary to institute a \$0.01 per mile fuel surcharge to address the rising cost of gasoline statewide. As you know, unleaded gasoline prices have been rising exponentially with little relief in sight.

The per mile rate is calculated based on four items: the number of miles estimated to be driven in the fiscal year, the cost of fuel, fuel economy (mpg) and maintenance costs. Our FY2006 rates were based on an average fuel cost of \$2.27/gallon consistent with Energy Information Administration (EIA) forecasts for 2006. Since rates were built, *average* 2006 price projections from the EIA have risen from \$2.27 to \$2.50. We now estimate our fuel costs to be \$13.2 million as compared to \$12.2 million at the end of FY 2005. While this increase would necessitate raising rates by \$0.026 per mile, we have been able to limit the rate increase to \$0.01 per mile for the following reasons:

- If trends hold, mileage traveled by departments is now forecast to be down by 832,000 miles. This reflects actions taken by departments to hold down unnecessary travel expense, use alternate methods to communicate, and use of personal vehicles where appropriate.
- Extending the useful life of passenger vehicles to 100,000 miles and the timing of purchases allowed us a one-time savings on depreciation expense.
- VTS received a one-time payment of \$291,000 in tax credits from the Internal Revenue Service for prior years' federal taxes that could not be exempted by our fuel card provider.
- Administrative savings due to a staff vacancy.

This fuel surcharge will be effective in FleetFocus (M4) with the July bill, based on mileage beginning June 1<sup>st</sup>. We will continue to monitor these costs closely and will advise you of any changes that could impact the per mile rate further. FY2007 rates are

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currently under development; they will reflect the EIA's best estimate of fuel prices for 2007. Attached is a graph of their current projections. Note these change monthly, generally on an upward trend.

We encourage you to remind your drivers to utilize our bulk fueling facilities. A list of those facilities is available on-line. Alternative fuel, such as ethanol, is available in a few locations priced below unleaded. Flex fuel vehicles should utilize those sites as well.

If you have any questions, please contact me at 322-5005. I appreciate your support to holding down our fleet costs.

c: Fleet Administrators  
Fleet Contacts  
Sean Carlson  
Phyllis Mellon  
Ronald Foss  
Tom Armbrustmacher  
David Quigley

Vehicle and Travel Services  
Fuel Projections - Energy Information Agency  
Short Term Energy Outlook Monthly Reports  
Monthly Projections, Calendar 2005, 2006 and 2007 by Quarter Year

